

## Message Text

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INFO OCT-01 IO-13 ISO-00 EB-07 SSO-00 NSCE-00 INRE-00

CCO-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00 FRB-03

H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01

AID-05 CIEP-01 SS-15 ITC-01 TRSE-00 USIA-06 PRS-01

SP-02 FEAE-00 OMB-01 AF-08 ARA-06 EA-07 EUR-12 NEA-10

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FM SECSTATE WASHDC

TO USDEL MTN GENEVA IMMEDIATE

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E.O. 11652: N/A

TAGS: ETRD, EAGR, MTN

SUBJECT: MTN DAIRY SUBGROUP MEETING: JULY 12, 1976

REF: (A) STATE 240868; (B) STATE 31823; (C) MTN GEN

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1. PROBLEM. THE SUBGROUP WILL MEET JULY 12 TO CONTINUE DISCUSSION OF COUNTRIES' PROPOSALS ON EXPANSION AND LIBERALIZATION OF TRADE, EXTENSION OF EXISTING INTERNATIONAL COOPERATION DEVICES, ETC. AS AGREED IN ITS FIRST MEETING IN JUNE 1975. THE EC HAS PROPOSED (MTN/DP/W/20) THAT THIS DISCUSSION DEAL FIRST WITH "IMPROVING AND EXTENDING THE ALREADY EXISTING DEVICES IN INTERNATIONAL AGREEMENTS" AND WITH THE "POTENTIAL CONSEQUENCES OF THE DEVICES CONTEMPLATED IN NEW INTERNATIONAL AGREEMENTS OR ARRANGEMENTS. ALTERNATIVE PROPOSALS BY OTHER COUNTRIES MAY BE MADE IN THE MEETING.
  2. THE SUBGROUP MAY ALSO CONTINUE EXAMINATION OF COUNTRIES TRADE MEASURES FOR DAIRY PRODUCTS. HERE THE EC HAS PROPOSED (MTN/DP/W/21) THAT COUNTRIES PROVIDE EXTENSIVE DOCUMENTATION AND INFORMATION CONCERNING THE IMPORT AND EXPORT REGIMES CURRENTLY APPLIED IN THE CHEESE SECTOR.
  3. FINALLY, THE SECRETARIAT HAS BEEN ASKED TO REVISE ON THE BASIS OF PREVIOUS DISCUSSIONS THE INFORMATION ALREADY PROVIDED BY COUNTRIES ON THEIR TRADE MEASURES AND STATISTICS. THIS REVISION HAS NOT YET BEEN CIRCULATED FOR REVIEW BY GOVERNMENTS AND THUS NO FRUITFUL DISCUSSION ON THE DOCUMENTS COULD TAKE PLACE AT THE MEETING.
  4. U.S. POSITION. U.S. IS NOT THE DEMANDEUR IN THE DAIRY SUBGROUP AND U.S. DEL SHOULD THEREFORE TAKE A LOW PROFILE AT THE JULY 12 MEETING. AS APPROPRIATE HOWEVER, DEL MAY FIND IT USEFUL TO DRAW ON THE FOLLOWING TO RECALL OR CLARIFY U.S. POSITION. IN JUNE, 1975 MEETING OF SUBGROUP, U.S. DELEGATE STATED THAT TRADE LIBERALIZATION SHOULD BE MAJOR OBJECTIVE. DEL ALSO PROPOSED (1) THAT WORK PROGRAM OF DAIRY SUBGROUP SHOULD BE FIRST TO IDENTIFY PROBLEMS IN DAIRY TRADE, AND THEN DISCUSS TECHNIQUES AND MODALITIES FOR DEALING WITH THOSE PROBLEMS AND (2) THAT OVERALL SOLUTION TO SUBSIDY/COUNTERVAILING PROBLEM SHOULD BE SOUGHT IN MTN SUBGROUP WITH THIS RESPONSIBILITY. THIS REMAINS U.S. POSITION.
  5. AGREEMENT HAS NOT YET BEEN REACHED ON NATURE OF MOST LIMITED OFFICIAL USE  
  
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- IMPORTANT DAIRY PROBLEMS. MOREOVER, NO CONCRETE SOLUTIONS HAVE BEEN ADVANCED, ALTHOUGH SOME GENERAL CONCEPTS (FOR INTERNATIONAL COMMODITY AGREEMENTS AND CONCERTED ACTIONS) HAVE BEEN MENTIONED WITHOUT SPECIFICS AS TO OPERATIONAL FEATURES.
6. DELEGATE MAY AGREE TO FURTHER DISCUSSION OF CURRENT INTERNATIONAL AGREEMENTS ON DAIRY TRADE IN RESPONSE TO EC

PROPOSAL (MTN/DP/W/20), BUT SHOULD NOT ACCEPT PRESENT WORDING THAT WOULD INDICATE ONLY PURPOSE OF DISCUSSION IS TO "DEAL WITH IMPROVING AND EXTENDING" SUCH ARRANGEMENTS. RATHER, DISCUSSION SHOULD CONSIDER ALL ASPECTS OF SUCH AGREEMENTS, INCLUDING PROBLEMS AND DIFFICULTIES INHERENT IN SUCH AGREEMENTS WHICH MAY HAVE CONTRIBUTED TO DISRUPTION AND DISTORTION OF INTERNATIONAL DAIRY TRADE. DEL MAY DRAW ON DISCUSSION IN PARA 3 REF A AND DISCUSSION BELOW TO SUPPORT THIS LATTER VIEW.

7. REGARDING THE SECOND HALF OF EC PROPOSAL, THAT SUBGROUP DEAL WITH POTENTIAL CONSEQUENCES OF DEVICES CONTEMPLATED IN NEW INTERNATIONAL AGREEMENTS, DEL SHOULD NOTE THAT THUS FAR DEVICES OF PROPOSED NEW AGREEMENTS (E.G., EC PROPOSAL FOR HOMOGENEOUS PRODUCTS) HAVE NOT BEEN DESCRIBED IN SUFFICIENT DETAIL TO PERMIT SUBSTANTIVE DISCUSSION. IF COUNTRIES WISH TO PRESENT DETAILED PROPOSALS AT THIS MEETING, U.S. DEL WILL TRANSMIT TO WASHINGTON FOR CONSIDERATION AND FUTURE DISCUSSION. HOWEVER, U.S. WOULD SUPPORT ONLY DISCUSSION OF THOSE INTERNATIONAL PROPOSALS WHICH

LIBERALIZE INTERNATIONAL DAIRY TRADE

8. U.S. DEL MAY AGREE TO EC PROPOSAL (MTN/DP/W/21) ON CONDITION THAT EC AGREES TO PROVIDE DETAILED INFORMATION ON AD VALOREM EQUIVALENT OF VARIABLE LEVIES ON CHEESES DURING RECENT YEARS, AND THAT COUNTRIES ALSO AGREE TO INCLUDE INFORMATION ON VOLUNTARY EXPORT RESTRAINT AGREEMENTS AND/OR ARRANGEMENTS BETWEEN DAIRY BOARDS RESPECTING TRADE. (FYI, LATTER POINT AIMED PRIMARILY AT APPARENT INFORMAL ARRANGEMENTS BETWEEN AUSTRALIA AND NEW ZEALAND).

9. IF OTHER COUNTRIES CRITICIZE LACK OF U.S. NEGOTIATING PROPOSAL OR MAJOR FORMAL STATEMENT, DEL SHOULD AVOID CON- LIMITED OFFICIAL USE

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FRONTATION BUT, IF NECESSARY, NOTE THAT U.S. HAS PARTICIPATED MORE ACTIVELY THAN MOST COUNTRIES IN THE SUBGROUPS' WORK THUS FAR. SINCE OTHER COUNTRIES ARE MAJOR EXPORTERS OF DAIRY PRODUCTS, U.S. FEELS THAT THEY SHOULD TAKE GREATER LEAD IN PROPOSING SOLUTIONS TO PROBLEMS IN THIS AREA. OVERALL OBJECTIVE OF U.S. IS TO ENSURE THAT BALANCE BETWEEN LIBERALIZATION AND OTHER APPROACHES CONTINUES TO BE MAINTAINED IN FUTURE WORK OF SUBGROUP, AND DEL MAY CONTINUE TO BE GUIDED BY PARA 4, REF B (CONTINGENCY COUNTER-PROPOSAL FOR NOTIFICATION/CONSULTATION PROCEDURE) IN THIS REGARD.

10. BEARING IN MIND THAT U.S. IS NOT DEMANDEUR IN SUBGROUP, U.S. DEL SHOULD NOT TAKE INITIATIVE ON FUTURE WORK PROGRAM BUT SHOULD LEAVE THIS TO COUNTRIES WITH MAJOR EX-

PORTING INTEREST. DEL MAY SUPPORT LEAVING DATE OF NEXT MEETING OPEN SO THAT INFORMAL DISCUSSIONS MAY BE HELD BY COUNTRIES WITH A VIEW TO NARROWING DIFFERENCES AND ASSESSING PROGRESS.

11. WE WILL SEND REPRESENTATIVE AVE'S AS REQUESTED IN PARA 9 OF REF C IN SEPARATE CABLE .

12. DISCUSSION. INTEREST IN INTERNATIONAL ARRANGEMENTS TO SUPPORT DAIRY EXPORT PRICES APPEARS TO STEM PRIMARILY FROM THE INABILITY OF CERTAIN MEMBER COUNTRIES TO CONTROL DOMESTIC PRODUCTION SO THAT EXPORTABLE DAIRY SUPPLIES ARE HELD WITHIN THE RANGE THAT THE WORLD MARKET CAN ABSORB AT REMUNERATIVE PRICES. HOWEVER, EVEN WITH MINIMUM EXPORT PRICE ARRANGEMENTS, THESE COUNTRIES HAVE FOUND IT NECESSARY TO DISPOSE OF LARGE SURPLUS STOCKS BY HEAVY EXPORT SUBSIDIZATION IN WORLD COMMERCIAL MARKETS. THESE SURPLUSES HAVE ARISEN PRIMARILY BECAUSE THEIR HIGH DOMESTIC PRICES AND RESTRICTIVE IMPORT POLICIES HAVE ENCOURAGED PRODUCTION AND KEPT DOMESTIC CONSUMPTION BELOW POTENTIAL.

13. THE UNITED STATES BELIEVES THAT INTERNATIONAL DAIRY ARRANGEMENTS HAVE GENERALLY ATTEMPTED TO PROP UP UNSOUND DOMESTIC PROGRAMS RATHER THAN DEAL WITH THE BASIC CAUSES OF WORLD DAIRY PROBLEMS. THIS IS EVIDENCED BY RECENT EXPERIENCE WITH THE GATT ARRANGEMENT FOR NFDM. IN THE FACE LIMITED OFFICIAL USE

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OF HEAVY SURPLUSES THIS YEAR, THE GATT MINIMUM PRICE HAD SERVED AS A BARRIER TO THE SIGNIFICANT INCREASES IN WORLD CONSUMPTION THAT ARE NEEDED, ALONG WITH PRODUCTION DECREASES, TO RESTORE MARKET EQUILIBRIUM. AS A RESULT, ARRANGEMENT MEMBER COUNTRIES SOUGHT AND RECEIVED SEVERAL DEROGATIONS TO EXPORT NFDM FOR ANIMAL FEED AT PRICES SUBSTANTIALLY BELOW THE COST OF NFDM PRODUCTION. SINCE NFDM COMPETES PRIMARILY WITH SOYBEAN MEAL IN ANIMAL FEED USE, TO BE COMPETITIVE NFDM PRICES WOULD CURRENTLY HAVE TO APPROXIMATE SOYBEAN MEAL PRICES OF DOLLARS 200 TO DOLLARS 240 PER TON IN MAJOR DEVELOPED COUNTRY MARKETS. SINCE THE GATT MINIMUM PRICE FOR NFDM OF DOLLARS 350 PER TON ALREADY SUBSTANTIALLY BELOW SUPPORT LEVELS, THE FUTILITY OF SUBSIDIZING EVEN FURTHER DOWN TO THE SOYBEAN MEAL PRICE LEVEL IS APPARENT. THE COST OF MOVING LARGE SURPLUSES WOULD NOT ONLY BE FINANCIALLY BURDENSOME, BUT THE EFFECT WOULD BE TO CAUSE DISRUPTION IN WORLD MARKETS FOR SOYBEAN MEAL AND OTHER PROTEIN FEEDS AND WOULD THEREBY BE INCONSISTENT WITH INTERNATIONAL TRADE OBLIGATIONS.

14. IT IS OBVIOUS THAT THE PRIMARY SOURCE OF PROBLEMS MOST EXPORTING COUNTRIES FACE IN NFDM IS DOMESTIC OVER-

PRODUCTION AND GLOBAL UNDER-CONSUMPTION STEMMING FROM  
EXCESSIVE PRICE SUPPORT AND PRICE-FIXING POLICIES, AND  
EXCESSIVE LEVELS OF IMPORT PROTECTION. INTERNATIONAL  
PRICE FIXING ARRANGEMENTS AS CONSTITUTED IN THE GATT  
ARRANGEMENT ARE, THEREFORE, NOT A SOLUTION TO WORLD DAIRY  
PROBLEM KISSINGER

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## Message Attributes

**Automatic Decaptioning:** X  
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**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
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**Disposition Approved on Date:**  
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